

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|---|------------------------|
| Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name City of Clare | County Clare |
| Audit Date 6/30/05 | Opinion Date 12/1/05 | Date Accountant Report Submitted to State: 12/29/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

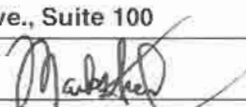
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGR). | | | ✓ |

| | | | |
|--|------------------------|-------------------------|--------------------------|
| Certified Public Accountant (Firm Name) Burnside & Lang, P.C. | | | |
| Street Address 5915 Eastman Ave., Suite 100 | City Midland | State MI | ZIP 48640-6824 |
| Accountant Signature  CPA, CSEP | | Date 12/29/05 | |

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended June 30, 2005

CITY OF CLARE

CITY COMMISSION

| | |
|------------------|---------------|
| Pat Humphrey | Mayor |
| Jim Allen | Mayor Pro Tem |
| Renee Crawford | Commissioner |
| Bill Horwood | Commissioner |
| Steven Kingsbury | Commissioner |

MANAGEMENT

| | |
|-------------------|------------------------------|
| Ken Hibl | City Manager |
| Christine Burns | City Clerk |
| Neil Hammerbacher | Finance Director & Treasurer |

CITY POPULATION–2000 CENSUS
3,173

STATE EQUALIZED VALUE–2004
\$98,440,731

STATE TAXABLE VALUE–2004
\$76,809,094

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005**

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| | |
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Independent Auditors' Report

Members of the City Commission
City of Clare
Clare and Isabella, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare, Clare and Isabella Counties, Michigan (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clare, Clare and Isabella Counties, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2005, on our consideration of the City of Clare's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 41 through 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The combining financial statements on pages 45 through 48 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Bernard J. Long, P.C.", is written above the typed name.

Midland, Michigan
December 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Clare's financial performance provides an overview of the City financial activities for the fiscal year that ended on June 30, 2005. Please read it in conjunction with the financial statements following this section.

The intent and objective of providing the management discussion and analysis is to provide the reader a quick summary of salient points and highlights of the City's financial statements while concurrently offering interested parties an appreciation of the City as a complex financial organization providing valuable services to the residents of Clare. The City continues to evolve in response to citizen desires, economic conditions, and decisions of the elected and appointed officials charged with governing the community.

The report presents information on both governmental activities and business-type activities. The governmental activities include the basic operations at city hall, public works, library, parks and recreation, public safety, the City's airport, community development and related debt service and capital outlay; the business-type activities are the City's public utilities (water and wastewater).

Financial Highlights

- The City's combined net assets increased \$131,852 in 2005 to an ending balance of \$12,818,875.
- The City's governmental activities net assets decreased by \$232,286 during the year to a new total of \$8,060,488.
- The business-type activities net assets increased \$364,138 to \$4,758,387 from positive operations and capital contributions.
- The City's undesignated General Fund Balance increased from \$796,936 at the end of its preceding fiscal year to \$874,718 at the end of the current budget year.
- At the end of the City's last fiscal year, the Sewer Fund's net assets were \$3,211,495; at the end of the current fiscal year, the net assets were \$3,475,961 – an increase of \$264,466. Similarly, the net assets of the Water Fund increased: from \$1,182,754 to a total of \$1,282,426 – an increase of \$99,672.
- The total of the City's outstanding debt (excluding component units) was \$3,792,032, which equates to a decrease in debt of \$27,998 when compared to the same reporting period for the preceding year.
- At the close of the fiscal year ending on June 30, 2005, the City's unrestricted net assets in its governmental activities was \$1,400,661; the unrestricted net assets in its business-type activities was \$1,328,524.

Overview of the Financial Statements

This annual report consists of these elements: management's discussion and analysis (this section); basic financial statements; and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City government and report the City's operation in more detail than the government-wide statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all government assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets — the difference between the City's assets and liabilities — is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets are an indicator whether its financial health is improving or deteriorating, respectively. This section will become more significant in future years with data trends from multiple accounting periods.

To assess the overall health of the City one also needs to consider additional non-financial factors such as changes in the City property tax base, the economy, and the rate of growth.

The government-wide financial statements of the City are divided into two categories:

Governmental activities — The City's basic services are included here, such as police, fire, public works, parks, recreation, airport operations, community development, solid waste, property assessment, finance, and administration. Property taxes and state revenue sharing finance most of these activities. Fees for programs, licenses, and permits are also a source of revenue.

Business-type activities — The City of Clare charges user fees to cover the cost of providing public water services and to finance the operations of the public wastewater utility operated by the City.

Fund Financial Statements

The fund financial statements provide detailed information about the City's significant funds. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

Governmental funds — Most of the City's basic services are included in governmental funds that focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, governmental funds statements tell how general government services like public safety and public works are financed in the short term as well as what future spending remains. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided at the bottom of the governmental funds statement explaining the differences between them.

Proprietary funds — Services for which the City charges users and other types of fees are reported in proprietary funds. These include sewer, water, electricity and communication utilities. Proprietary fund statements offer short and long-term financial information about activities that the City operates like a business.

Fiduciary funds — The City is a trustee, or fiduciary, for the collection of all property taxes with the City and for all taxing districts, including the local K-12 school district, the intermediate school district, a community college, two counties, and the State of Michigan. All the City's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City's government-wide financial statements because these assets cannot be used to finance operations.

Financial Analysis of the City as a Whole

Net Assets — The City's combined net assets increased by \$131,852 or about 1% in the reporting period ending June 30, 2005. This table describes the net assets of the City. Page 9 of the financial statements provides more detail.

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------|-------------------------|--------------|--------------------------|-------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets: | | | | | | |
| Current assets | \$2,010,609 | \$2,349,405 | \$1,952,747 | \$1,565,180 | \$ 3,963,356 | \$ 3,914,585 |
| Capital assets | 7,244,173 | 6,894,326 | 6,280,863 | 6,574,191 | 13,525,036 | 13,468,517 |
| Total assets | 9,254,782 | 9,243,731 | 8,233,610 | 8,139,371 | 17,488,392 | 17,383,102 |
| Liabilities: | | | | | | |
| Current liabilities | 216,114 | 246,401 | 390,407 | 442,816 | 606,521 | 689,217 |
| Long-term liabilities | 978,180 | 704,556 | 3,084,816 | 3,302,306 | 4,062,996 | 4,006,862 |
| Total liabilities | 1,194,294 | 950,957 | 3,475,223 | 3,745,122 | 4,669,517 | 4,696,079 |
| Net Assets: | | | | | | |
| Invested in capital assets – | | | | | | |
| Net of related debt | 6,328,141 | 6,600,994 | 3,404,863 | 3,349,191 | 9,733,004 | 9,950,185 |
| Restricted | 331,686 | 398,900 | 25,000 | 25,000 | 356,686 | 423,900 |
| Unrestricted | 1,400,661 | 1,292,880 | 1,328,524 | 1,020,058 | 2,729,185 | 2,312,938 |
| Total net assets | \$8,060,488 | \$ 8,292,774 | \$4,758,387 | \$4,394,249 | \$12,818,875 | \$12,687,023 |

Changes in Net Assets

The City's 2004/2005 revenues total \$4,191,589 and expenses total \$4,059,737 resulting in an overall increase of net assets of \$131,852. The following table shows the changes of net assets for the year ending June 30, 2005. Page 10 of the financial statements provides more detail.

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|-------------|--------------------------|-------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Program revenues: | | | | | | |
| Charges for services | \$ 506,300 | \$ 405,926 | \$1,197,315 | \$1,337,856 | \$1,703,615 | \$1,743,782 |
| Operating grants and contributions | 459,652 | 444,319 | - | - | 459,652 | 444,319 |
| Capital grants and contributions | - | 87,210 | - | - | - | 87,210 |
| General revenues: | | | | | | |
| Property taxes and related fees | 1,288,809 | 1,245,684 | - | - | 1,288,809 | 1,245,684 |
| State aid | 356,610 | 374,879 | - | - | 356,610 | 374,879 |
| Interest earnings | 66,760 | 9,870 | 56,379 | 8,208 | 123,139 | 18,078 |
| Other | 42,781 | 136,041 | 216,983 | 159,655 | 259,764 | 295,696 |
| Transfers | (104,877) | - | 104,877 | - | - | - |
| Total revenues | 2,616,035 | 2,703,929 | 1,575,554 | 1,505,719 | 4,191,589 | 4,209,648 |
| Program Expenses: | | | | | | |
| General government | 646,183 | 597,601 | - | - | 646,183 | 597,601 |
| Public safety | 928,483 | 852,172 | - | - | 928,483 | 852,172 |
| Public works | 902,774 | 869,130 | - | - | 902,774 | 869,130 |
| Community development | 21,707 | 20,525 | - | - | 21,707 | 20,525 |
| Recreation and culture | 349,174 | 332,613 | - | - | 349,174 | 332,613 |
| Sewer | - | - | 772,828 | 839,613 | 772,828 | 839,613 |
| Water | - | - | 438,588 | 532,746 | 438,588 | 532,746 |
| Total program expenses | 2,848,321 | 2,672,041 | 1,211,416 | 1,372,359 | 4,059,737 | 4,044,400 |
| Change in net assets | (232,286) | 31,888 | 364,138 | 133,360 | 131,852 | 165,248 |
| Net assets – beginning | 8,292,774 | 8,260,886 | 4,394,249 | 4,260,889 | 12,687,023 | 12,521,775 |
| Net assets - ending | \$8,060,488 | \$8,292,774 | \$4,758,387 | \$4,394,249 | \$12,818,875 | \$12,687,023 |

Governmental Activities

Revenues for the City's governmental activities totaled \$2,616,035, which equated to a decrease in governmental activity revenues of \$87,894 from the previous year's revenues in this category. This decrease was caused by three factors: a further reduction in state revenue sharing for the fourth consecutive year; an intentional ¼ mill reduction in operating millage directed by the Clare City Commission in an attempt to help, at least in a small way, to ease the taxation burden on Clare taxpayers; and the transfer of approximately \$105,000 from the closing of a capital project fund related to a capital project completed a number of years ago.

Proprietary Funds

Revenues from the City's business-type activities increased \$69,835 during this fiscal reporting period, but approximately \$105,000 of this revenue increase was attributed to the aforementioned transfer from a long-completed capital project. This revenue increase was augmented by a \$160,943 reduction in expenses of the City's business-type funds.

Financial Analysis of the City's Funds

As the City completed its fiscal year, its governmental funds reported a combined fund balance of \$1,448,840. This represents a \$45,448 total fund balance decrease from the last fiscal year. Fund balances decreased in the Major Street Fund and in the category of Other Governmental Funds, while increases occurred in the City's General Fund, the Local Street Fund and the Fire Fund.

General Fund Budgetary Highlights

A detailed General Fund budget is adopted by the City Council on an annual basis following a scheduled series of publicly held budget workshops and appropriately noticed public hearings. A number of budget amendments were made throughout the year to adjust or compensate for unanticipated operational and emergency-type costs and to transfer monies from one fund to another.

The City's ending General Fund balance increased \$42,283 to \$878,679.

Capital Assets

The City had net investments of \$13,525,036 in capital assets at the end of this fiscal reporting period. These assets include municipally-owned buildings and land, public safety equipment (police and firefighting equipment and vehicles), recreational facilities, and water and sewer infrastructure (water towers, pump stations, underground distribution and collection systems, etc.). While the City has acquired the software to inventory its public roads and sidewalks, the actual inventory has not been completed. Once this task is fulfilled, the reported assets of the City will increase significantly.

Long Term Debt

At year end, the City (excluding its component units) had \$3,792,032 in outstanding bonds and notes. This amount is a \$27,998 decrease from the previous fiscal year. Bond indebtedness is the result of bonds sold by the City to finance various public improvement projects over the years, to include the construction of wastewater treatment facility, expansion of the existing sanitary sewer and water distribution systems, and most recently, the construction of a new public safety building.

Economic Factors and Next Year's Budget

Economic Factors

- State revenue sharing has continued its downward spiral and is not expected to reverse this trend in the near term – or more succinctly, until the state government resolves its budget deficit woes. One should anticipate that local governmental units will continue bearing a significant portion of the burden of these budget deficits; therefore the City must continue to look for means to reduce the cost of its services, reduce the level of services currently being provided, or find local means to increase its revenues (increase its tax base).
- A number of local industrial firms continue to make significant investments in their respective businesses in Clare – most notably, JD Metalworks, Letherer Truss, and Stageright have continued to make significant commitments to future expansion and further development of their existing manufacturing ventures. The City's primary industrial park is now at maximum capacity and additional property must be purchased to continue the City's future industrial development.
- The local housing market has remained stagnant and only a handful of new housing starts were realized in the City this budget year. Barring any significant shift in demography or the economy, this trend is expected to continue.
- The cost of employee health care is expected to continue to escalate.

2005/2006 Budget

The City adopted its 2005/2006 budget on July 1, 2005. Approved appropriations were commensurate with those of the City's 2004/2005 adopted budget. As a general rule, only consumer price index and labor contract mandated increases were made in the new budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. It is intended to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, please contact either City Manager, Ken Hibl or Finance Director, Neil Hammerbacher.

City of Clare
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Clare, Michigan 48617
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Website: www.cityofclare.org

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

| | Primary Government | | | |
|---|----------------------------|-----------------------------|---------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 302,647 | \$ 52,380 | \$ 355,027 | \$ 32,585 |
| Investments | 1,000,000 | 1,100,000 | 2,100,000 | - |
| Accounts receivable, net | 94,062 | 195,477 | 289,539 | - |
| Taxes receivable, net | 10,383 | - | 10,383 | - |
| Assessments receivable, net | 104,061 | 547,816 | 651,877 | - |
| Other assets | 8,459 | 2,287 | 10,746 | - |
| Due from other funds | 618 | - | 618 | - |
| Due from component units | 74,754 | - | 74,754 | - |
| Due from primary governmental unit | - | - | - | 209,415 |
| Due from other governmental units | 63,139 | - | 63,139 | - |
| Inventory | 19,833 | 29,524 | 49,357 | - |
| Prepaid items | 967 | 263 | 1,230 | - |
| Restricted cash | 331,686 | 25,000 | 356,686 | - |
| Capital assets: | | | | |
| Land | 3,675,456 | 53,389 | 3,728,845 | 124,626 |
| Library collections | - | - | - | - |
| Construction in progress | - | 8,593 | 8,593 | 90,870 |
| Land improvements, net | 806,978 | 113,042 | 920,020 | 297,391 |
| Buildings and improvements, net | 1,609,022 | 1,776,322 | 3,385,344 | - |
| Equipment, net | 1,152,717 | 387,413 | 1,540,130 | - |
| Infrastructure, net | - | 3,942,104 | 3,942,104 | - |
| Total capital assets | 7,244,173 | 6,280,863 | 13,525,036 | 512,887 |
| Total assets | 9,254,782 | 8,233,610 | 17,488,392 | 754,887 |
| LIABILITIES | | | | |
| Accounts payable | 95,352 | 11,292 | 106,644 | 81,973 |
| Accrued expenses | 74,549 | 30,954 | 105,503 | - |
| Due to primary governmental unit | - | - | - | 74,754 |
| Due to other governmental units | 4,300 | - | 4,300 | 54,772 |
| Deferred revenue | 104,061 | 547,816 | 651,877 | - |
| Deposits and other liabilities | - | 9,161 | 9,161 | - |
| Long-term liabilities: | | | | |
| Portion due or payable within one year: | | | | |
| Bonds and contracts payable | 13,000 | 339,000 | 352,000 | 90,000 |
| Capital leases | 28,913 | - | 28,913 | - |
| Portion due or payable after one year: | | | | |
| Bonds and contracts payable | 775,000 | 2,537,000 | 3,312,000 | 605,000 |
| Capital leases | 99,119 | - | 99,119 | - |
| Total liabilities | 1,194,294 | 3,475,223 | 4,669,517 | 906,499 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 6,328,141 | 3,404,863 | 9,733,004 | 242,887 |
| Restricted for: | | | | |
| Capital projects | 33,264 | - | 33,264 | - |
| Debt service | - | 25,000 | 25,000 | - |
| Other purposes | 298,422 | - | 298,422 | - |
| Unrestricted | 1,400,661 | 1,328,524 | 2,729,185 | (394,499) |
| Total net assets | \$ 8,060,488 | \$ 4,758,387 | \$ 12,818,875 | \$ (151,612) |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

| Activities: | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|--------------------------------------|--------------|--------------------------------------|------------------------------------|----------------------------------|---|--------------------------|---------------|-----------------|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Governmental: | | | | | | | | |
| General government | \$ 646,183 | \$ 37,515 | \$ - | \$ - | \$ (608,668) | | \$ (608,668) | |
| Public safety | 928,483 | 234,746 | 31,211 | - | (662,526) | | (662,526) | |
| Public works | 902,774 | 143,466 | 428,441 | - | (330,867) | | (330,867) | |
| Community development | 21,707 | - | - | - | (21,707) | | (21,707) | |
| Recreation and culture | 349,174 | 90,573 | - | - | (258,601) | | (258,601) | |
| Total governmental activities | 2,848,321 | 506,300 | 459,652 | - | (1,882,369) | | (1,882,369) | |
| Business-type: | | | | | | | | |
| Sewer | 772,828 | 833,822 | - | - | | \$ 60,994 | 60,994 | |
| Water | 438,588 | 363,493 | - | - | | (75,095) | (75,095) | |
| Total business-type activities | 1,211,416 | 1,197,315 | - | - | | (14,101) | (14,101) | |
| Total Primary Government | \$ 4,059,737 | \$ 1,703,615 | \$ 459,652 | \$ - | (1,882,369) | (14,101) | (1,896,470) | |
| Component units: | | | | | | | | |
| Downtown Development Authority | 196,088 | - | 24,187 | - | | | | \$ (171,901) |
| Local Development Finance Authority | 22,465 | - | - | - | | | | (22,465) |
| Library | 958,518 | 30,815 | - | 47,025 | | | | (880,678) |
| Total governmental-type activities | \$ 1,177,071 | \$ 30,815 | \$ 24,187 | \$ 47,025 | | | | (1,075,044) |
| General revenues: | | | | | | | | |
| Property taxes and related fees | | | | | 1,288,809 | - | 1,288,809 | 371,207 |
| State aid | | | | | 356,610 | - | 356,610 | - |
| Interest earnings | | | | | 66,760 | 56,379 | 123,139 | 3,108 |
| Transfers | | | | | (104,877) | 104,877 | - | - |
| Miscellaneous | | | | | 42,781 | 216,983 | 259,764 | 21,901 |
| Total general revenues and transfers | | | | | 1,650,083 | 378,239 | 2,028,322 | 396,216 |
| Change in net assets | | | | | (232,286) | 364,138 | 131,852 | (678,828) |
| Net assets-beginning | | | | | 8,292,774 | 4,394,249 | 12,687,023 | 527,216 |
| Net assets-ending | | | | | \$ 8,060,488 | \$ 4,758,387 | \$ 12,818,875 | \$ (151,612) |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2005

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Fire Department</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------------|-------------------------|----------------------------|---|---------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 490,814 | \$ 9,310 | \$ 2,871 | \$ 17,542 | \$ 82,271 | \$ 602,808 |
| Investments | 300,000 | - | - | 175,000 | 250,000 | 725,000 |
| Accounts receivable, net | 69,164 | - | - | 23,000 | - | 92,164 |
| Taxes receivable, net | 9,857 | - | 395 | - | 131 | 10,383 |
| Assessment receivable, net | 49,533 | 12,295 | 32,558 | - | 9,675 | 104,061 |
| Due from other funds | 618 | - | 25,000 | - | - | 25,618 |
| Due from component units | 74,754 | - | - | - | - | 74,754 |
| Due from other governmental units | - | 51,591 | 11,548 | - | - | 63,139 |
| Inventory | 2,988 | - | - | - | - | 2,988 |
| Other assets | 5,295 | - | - | 3,163 | - | 8,458 |
| Total assets | <u>\$ 1,003,023</u> | <u>\$ 73,196</u> | <u>\$ 72,372</u> | <u>\$ 218,705</u> | <u>\$ 342,077</u> | <u>\$ 1,709,373</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 41,446 | \$ 12,663 | \$ 75 | \$ 1,079 | \$ 580 | \$ 55,843 |
| Accrued expenses | 29,065 | 1,760 | 2,666 | 37,702 | 136 | 71,329 |
| Due to other funds | - | 25,000 | - | - | - | 25,000 |
| Due to other governmental units | 4,300 | - | - | - | - | 4,300 |
| Deferred revenue | 49,533 | 12,295 | 32,558 | - | 9,675 | 104,061 |
| Total liabilities | <u>124,344</u> | <u>51,718</u> | <u>35,299</u> | <u>38,781</u> | <u>10,391</u> | <u>260,533</u> |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Inventories | 2,988 | - | - | - | - | 2,988 |
| Drug forfeitures | 973 | - | - | - | - | 973 |
| Unreserved and undesignated | 874,718 | 21,478 | 37,073 | 179,924 | 331,686 | 1,444,879 |
| Total fund balances | <u>878,679</u> | <u>21,478</u> | <u>37,073</u> | <u>179,924</u> | <u>331,686</u> | <u>1,448,840</u> |
| Total liabilities and fund balances | <u>\$ 1,003,023</u> | <u>\$ 73,196</u> | <u>\$ 72,372</u> | <u>\$ 218,705</u> | <u>\$ 342,077</u> | <u>\$ 1,709,373</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances for governmental funds (Exhibit 4) \$ 1,448,840

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

| | | | |
|---|----|-----------|-----------|
| Land | \$ | 3,675,456 | |
| Land improvements, net of \$54,196 accumulated depreciation | | 806,978 | |
| Buildings and improvements, net of \$511,686 accumulated depreciation | | 1,609,022 | |
| Equipment, net of \$1,774,035 accumulated depreciation | | 1,152,717 | |
| Total capital assets | | 7,244,173 | 7,244,173 |

The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service fund's unrestricted net assets are:

283,507

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2005 are:

| | | | |
|--|----|-----------|--|
| Capital lease obligation | \$ | (128,032) | |
| 2004 General Obligation Limited Tax Bond | | (788,000) | |
| | | (916,032) | |

Total net assets of governmental activities (Exhibit 2) \$ 8,060,488

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2005

| | General | Major Street | Local Street | Fire Department | Other Governmental Funds | Total |
|--|-------------------|-------------------------|-------------------------|----------------------------|---|---------------------|
| REVENUES | | | | | | |
| Property taxes and related fees | \$ 1,224,622 | \$ - | \$ 48,092 | \$ - | \$ 16,095 | \$ 1,288,809 |
| Licenses and permits | 16,168 | - | - | - | - | 16,168 |
| Federal aid | - | - | - | 24,777 | - | 24,777 |
| State aid | 386,304 | 309,841 | 71,381 | - | - | 767,526 |
| Charges for services | 287,801 | - | - | 152,128 | 8,100 | 448,029 |
| Interest and dividends | 42,500 | 1,039 | 2,587 | 8,568 | 12,066 | 66,760 |
| Fines and forfeits | 13,665 | - | - | - | - | 13,665 |
| Special assessments, net | 38,359 | 966 | 4,168 | - | 3,726 | 47,219 |
| Sale of assets | - | - | - | 3,253 | - | 3,253 |
| Donations | 1,925 | - | - | - | - | 1,925 |
| Miscellaneous | 36,158 | 381 | 5,156 | 661 | 425 | 42,781 |
| Total revenues | <u>2,047,502</u> | <u>312,227</u> | <u>131,384</u> | <u>189,387</u> | <u>40,412</u> | <u>2,720,912</u> |
| EXPENDITURES | | | | | | |
| General government | 599,216 | - | - | - | - | 599,216 |
| Public safety | 656,348 | - | - | 157,772 | - | 814,120 |
| Public works | 210,652 | 266,554 | 209,814 | - | 10,978 | 697,998 |
| Community development | 21,707 | - | - | - | - | 21,707 |
| Recreation and culture | 325,559 | - | - | - | - | 325,559 |
| Capital outlay | 60,160 | - | - | 42,549 | 407,708 | 510,417 |
| Debt service | - | - | - | 37,645 | 25,192 | 62,837 |
| Total expenditures | <u>1,873,642</u> | <u>266,554</u> | <u>209,814</u> | <u>237,966</u> | <u>443,878</u> | <u>3,031,854</u> |
| Excess (deficiency) of revenues over expenditures | <u>173,860</u> | <u>45,673</u> | <u>(78,430)</u> | <u>(48,579)</u> | <u>(403,466)</u> | <u>(310,942)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from debt obligations | - | - | - | - | 370,371 | 370,371 |
| Transfers-in | 821 | - | 84,906 | 78,640 | 35,961 | 200,328 |
| Transfers-out | (132,398) | (63,678) | - | (3,431) | (105,698) | (305,205) |
| Total other financing sources and uses | <u>(131,577)</u> | <u>(63,678)</u> | <u>84,906</u> | <u>75,209</u> | <u>300,634</u> | <u>265,494</u> |
| Net change in fund balances | 42,283 | (18,005) | 6,476 | 26,630 | (102,832) | (45,448) |
| Fund balances-beginning | <u>836,396</u> | <u>39,483</u> | <u>30,597</u> | <u>153,294</u> | <u>434,518</u> | <u>1,494,288</u> |
| Fund balances-ending | <u>\$ 878,679</u> | <u>\$ 21,478</u> | <u>\$ 37,073</u> | <u>\$ 179,924</u> | <u>\$ 331,686</u> | <u>\$ 1,448,840</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
June 30, 2005

| | | |
|--|----|----------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ | (45,448) |
|--|----|----------|

The change in net assets reported for governmental activities in the statement of activities is different because:

| | | |
|--|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$510,416) exceeded depreciation (\$301,804) in the current period. | | 208,612 |
|--|--|---------|

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:

| | | |
|--|----|-----------|
| 2004 General Obligation Limited Tax Bond | \$ | (370,371) |
|--|----|-----------|

Repayments:

| | | |
|--|--------|-----------|
| 2004 General Obligation Limited Tax Bond | 12,000 | |
| Capital lease obligation | 27,067 | (331,304) |
| | | |

The internal service funds (see exhibit 7) are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. The net change of the internal service funds is reported within the governmental activities.

| | | |
|---|----|-----------|
| Change in net assets of governmental activities (Exhibit 3) | \$ | (232,286) |
|---|----|-----------|

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2005

| | Enterprise Funds | | | Internal Service Funds |
|---|-------------------------|-----------------------|---------------------|---------------------------------------|
| | Sewer Fund | Water Fund | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 26,160 | \$ 26,220 | \$ 52,380 | \$ 31,525 |
| Investments | 775,000 | 325,000 | 1,100,000 | 275,000 |
| Accounts receivable, net | 95,824 | 99,653 | 195,477 | 1,898 |
| Assessments receivable | 464,728 | 83,088 | 547,816 | - |
| Other receivables | 1,598 | 689 | 2,287 | - |
| Inventory | 16,270 | 13,254 | 29,524 | 16,845 |
| Prepaid items | 263 | - | 263 | 967 |
| Total current assets | <u>1,379,843</u> | <u>547,904</u> | <u>1,927,747</u> | <u>326,235</u> |
| Noncurrent assets: | | | | |
| Restricted cash | 25,000 | - | 25,000 | - |
| Capital assets: | | | | |
| Land | 10,757 | 42,632 | 53,389 | 85,000 |
| Construction in progress | 8,593 | - | 8,593 | - |
| Land improvements, net | 113,042 | - | 113,042 | - |
| Buildings and improvements, net | 1,720,793 | 55,529 | 1,776,322 | 212,693 |
| Equipment, net | 385,895 | 1,518 | 387,413 | 445,722 |
| Infrastructure, net | 2,789,733 | 1,152,371 | 3,942,104 | - |
| Total capital assets | <u>5,028,813</u> | <u>1,252,050</u> | <u>6,280,863</u> | <u>743,415</u> |
| Total assets | <u>6,433,656</u> | <u>1,799,954</u> | <u>8,233,610</u> | <u>1,069,650</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 9,503 | 1,789 | 11,292 | 39,509 |
| Accrued expenses | 23,303 | 7,651 | 30,954 | 3,220 |
| Deposits and other liabilities | 9,161 | - | 9,161 | - |
| Deferred revenue | 464,728 | 83,088 | 547,816 | - |
| Bonds and contracts payable | 314,000 | 25,000 | 339,000 | - |
| Total current liabilities | <u>820,695</u> | <u>117,528</u> | <u>938,223</u> | <u>42,729</u> |
| Noncurrent liabilities | | | | |
| Bonds and contracts payable | 2,137,000 | 400,000 | 2,537,000 | - |
| Total noncurrent liabilities | <u>2,137,000</u> | <u>400,000</u> | <u>2,537,000</u> | <u>-</u> |
| Total liabilities | <u>2,957,695</u> | <u>517,528</u> | <u>3,475,223</u> | <u>42,729</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 2,577,813 | 827,050 | 3,404,863 | 743,415 |
| Restricted for debt obligations | 25,000 | - | 25,000 | - |
| Unrestricted | 873,148 | 455,376 | 1,328,524 | 283,507 |
| Total net assets | <u>\$ 3,475,961</u> | <u>\$ 1,282,426</u> | <u>\$ 4,758,387</u> | <u>\$ 1,026,922</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

| | Enterprise Funds | | | Internal Service |
|---|-------------------------|-----------------------|---------------------|-------------------------|
| | Sewer Fund | Water Fund | Total | Funds |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 830,359 | \$ 322,356 | \$ 1,152,715 | \$ 432,288 |
| Miscellaneous | 3,463 | 41,137 | 44,600 | 1,854 |
| Total operating revenues | <u>833,822</u> | <u>363,493</u> | <u>1,197,315</u> | <u>434,142</u> |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 109,216 | 88,485 | 197,701 | 96,844 |
| Payroll taxes | 14,758 | 6,603 | 21,361 | 7,152 |
| Employee benefits | 43,689 | 36,110 | 79,799 | 48,256 |
| Supplies | 34,464 | 12,919 | 47,383 | 25,895 |
| Postage | - | - | - | 1,727 |
| Contracted services | 13,782 | 7,149 | 20,931 | 51,152 |
| Insurance | 5,122 | 1,894 | 7,016 | 23,895 |
| Telephone and communications | 2,744 | 2,837 | 5,581 | 782 |
| Travel, meals and lodging | 203 | 180 | 383 | - |
| Training | 2,005 | 1,325 | 3,330 | 1,510 |
| Utilities | 65,048 | 26,826 | 91,874 | 12,640 |
| Repair and maintenance | 21,497 | 14,580 | 36,077 | 69,193 |
| Equipment rental | 87,460 | 77,041 | 164,501 | 12,420 |
| Miscellaneous | 576 | 762 | 1,338 | 302 |
| Depreciation | 253,774 | 48,147 | 301,921 | 156,816 |
| Total operating expenses | <u>654,338</u> | <u>324,858</u> | <u>979,196</u> | <u>508,584</u> |
| Operating income (loss) | <u>179,484</u> | <u>38,635</u> | <u>218,119</u> | <u>(74,442)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Special assessments | 52,952 | 44,823 | 97,775 | - |
| Investment earnings | 40,842 | 15,536 | 56,378 | 14,984 |
| Other revenue | 4,800 | 114,408 | 119,208 | - |
| Other expenses | - | (90,141) | (90,141) | - |
| Interest expense | (118,490) | (23,589) | (142,079) | (4,688) |
| Total nonoperating revenue (expenses) | <u>(19,896)</u> | <u>61,037</u> | <u>41,141</u> | <u>10,296</u> |
| Income (loss) before transfers | 159,588 | 99,672 | 259,260 | (64,146) |
| Transfers in | 104,878 | - | 104,878 | - |
| Changes in net assets | 264,466 | 99,672 | 364,138 | (64,146) |
| Total net assets-beginning | <u>3,211,495</u> | <u>1,182,754</u> | <u>4,394,249</u> | <u>1,091,068</u> |
| Total net assets-ending | <u>\$ 3,475,961</u> | <u>\$ 1,282,426</u> | <u>\$ 4,758,387</u> | <u>\$ 1,026,922</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

| | Enterprise Funds | | | Internal Service Funds |
|---|-------------------|------------------|-------------------|------------------------|
| | Sewer Fund | Water Fund | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 847,870 | \$ 339,372 | \$ 1,187,242 | \$ 436,137 |
| Payments to suppliers | (230,248) | (138,293) | (368,541) | (147,834) |
| Payments to employees | (82,992) | (54,944) | (137,936) | (152,765) |
| Internal activity-payments from (to) other funds | (87,460) | (77,041) | (164,501) | (12,420) |
| Net cash provided (used) by operating activities | <u>447,170</u> | <u>69,094</u> | <u>516,264</u> | <u>123,118</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers in | 104,877 | - | 104,877 | - |
| Customer deposits | 161 | - | 161 | - |
| Nonoperating revenue (expense) | 4,800 | 24,267 | 29,067 | - |
| Interfund loans-proceeds and collections | - | (50,000) | (50,000) | - |
| Net cash provided by noncapital financing activities | <u>109,838</u> | <u>(25,733)</u> | <u>84,105</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchases and construction of capital assets | (8,593) | - | (8,593) | (175,343) |
| Proceeds from special assessments | 52,952 | 44,823 | 97,775 | - |
| Principal paid on capital debt | (329,000) | (20,000) | (349,000) | (10,302) |
| Interest paid on capital debt | (118,490) | (23,589) | (142,079) | (4,688) |
| Net cash used by capital and related financing activities | <u>(403,131)</u> | <u>1,234</u> | <u>(401,897)</u> | <u>(190,333)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Net purchase/sales of investments | (175,000) | (75,000) | (250,000) | 75,000 |
| Interest and dividends | 40,842 | 15,536 | 56,378 | 14,984 |
| Net cash provided by investing activities | <u>(134,158)</u> | <u>(59,464)</u> | <u>(193,622)</u> | <u>89,984</u> |
| Net increase in cash and cash equivalents | 19,719 | (14,869) | 4,850 | 22,769 |
| Balances-beginning of the year | 31,441 | 41,089 | 72,530 | 8,756 |
| Balances-end of the year | <u>\$ 51,160</u> | <u>\$ 26,220</u> | <u>\$ 77,380</u> | <u>\$ 31,525</u> |
| Displayed as: | | | | |
| Cash and cash equivalents | \$ 26,160 | \$ 26,220 | \$ 52,380 | \$ 31,525 |
| Restricted cash | 25,000 | - | 25,000 | - |
| | <u>\$ 51,160</u> | <u>\$ 26,220</u> | <u>\$ 77,380</u> | <u>\$ 31,525</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 179,484 | \$ 38,635 | \$ 218,119 | \$ (74,442) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 253,774 | 48,147 | 301,921 | 156,816 |
| Change in assets and liabilities: | | | | |
| Receivables, net | 14,048 | (24,121) | (10,073) | 1,995 |
| Inventory | (3,282) | 2,667 | (615) | 269 |
| Prepaid items | 1,629 | 2,852 | 4,481 | 527 |
| Accounts payable | 4,305 | 1,701 | 6,006 | 38,466 |
| Accrued expenses | (2,788) | (787) | (3,575) | (513) |
| Net cash provided (used) by operating activities | <u>\$ 447,170</u> | <u>\$ 69,094</u> | <u>\$ 516,264</u> | <u>\$ 123,118</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2005

| | <u>General Agency Fund</u> | <u>Current Tax Collection Fund</u> | <u>Payroll Imprest Fund</u> | <u>Health Resource Account Fund</u> |
|---------------------------------|--------------------------------|--|---------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 12,321 | \$ 618 | \$ 74,731 | \$ 3,868 |
| Investments | 300,000 | - | - | - |
| Total assets | <u>312,321</u> | <u>618</u> | <u>74,731</u> | <u>3,868</u> |
| LIABILITIES | | | | |
| Due to other governmental units | 102,906 | - | 13,233 | - |
| Due to component units | 209,415 | - | - | - |
| Due to other funds | - | 618 | - | - |
| Due to others | - | - | 61,498 | 3,868 |
| Total liabilities | <u>312,321</u> | <u>618</u> | <u>74,731</u> | <u>3,868</u> |
| NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2005

| | Downtown Development Authority | Local Development Finance Authority | Garfield Memorial Library | Total |
|---|---|--|--|---------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 24,903 | \$ 7,682 | \$ - | \$ 32,585 |
| Due from primary governmental unit | 70,208 | 139,207 | - | 209,415 |
| Total current assets | <u>95,111</u> | <u>146,889</u> | <u>-</u> | <u>242,000</u> |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Land | 124,626 | - | - | 124,626 |
| Land improvements, net | 297,391 | - | - | 297,391 |
| Construction in progress | - | 90,870 | - | 90,870 |
| Total capital assets | <u>422,017</u> | <u>90,870</u> | <u>-</u> | <u>512,887</u> |
| Total assets | <u>517,128</u> | <u>237,759</u> | <u>-</u> | <u>754,887</u> |
| LIABILITIES | | | | |
| Liabilities: | | | | |
| Accounts payable | 81,973 | - | - | 81,973 |
| Due to primary governmental unit | 72,754 | 2,000 | - | 74,754 |
| Due to other governmental units | 54,772 | - | - | 54,772 |
| Bonds and contracts payable | 45,000 | 45,000 | - | 90,000 |
| Total current liabilities | <u>254,499</u> | <u>47,000</u> | <u>-</u> | <u>301,499</u> |
| Noncurrent liabilities | | | | |
| Bonds and contracts payable | 225,000 | 380,000 | - | 605,000 |
| Total noncurrent liabilities | <u>225,000</u> | <u>380,000</u> | <u>-</u> | <u>605,000</u> |
| Total liabilities | <u>479,499</u> | <u>427,000</u> | <u>-</u> | <u>906,499</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 152,017 | 90,870 | - | 242,887 |
| Unrestricted | (114,388) | (280,111) | - | (394,499) |
| Total net assets | <u>\$ 37,629</u> | <u>\$ (189,241)</u> | <u>\$ -</u> | <u>\$ (151,612)</u> |

CITY OF CLARE
COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
Year Ended June 30, 2005

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|---------------------|--|--|--|---|---|------------------|---------------------|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Downtown Development Authority | Local Development Finance Authority | Library | Total |
| | Expenses | | | | | | | |
| Downtown Development Authority | | | | | | | | |
| Community and economic development | \$ 196,088 | \$ - | \$ 24,187 | \$ - | \$ (171,901) | \$ - | \$ - | \$ (171,901) |
| Local Development Finance Authority | | | | | | | | |
| Community and economic development | 22,465 | - | - | - | - | (22,465) | - | (22,465) |
| Library | | | | | | | | |
| Recreation and culture | 52,761 | 30,815 | - | 47,025 | - | - | 25,079 | 25,079 |
| Net contribution to new district library | 905,757 | - | - | - | - | - | (905,757) | (905,757) |
| Total activities | <u>\$ 1,177,071</u> | <u>\$ 30,815</u> | <u>\$ 24,187</u> | <u>\$ 47,025</u> | <u>(171,901)</u> | <u>(22,465)</u> | <u>(880,678)</u> | <u>(1,075,044)</u> |
| General revenues: | | | | | | | | |
| Tax increment | | | | | 177,961 | 139,207 | - | 317,168 |
| Property taxes | | | | | - | - | 54,039 | 54,039 |
| Interest earnings | | | | | 1,578 | 706 | 824 | 3,108 |
| Miscellaneous | | | | | - | 10,962 | 10,939 | 21,901 |
| Total general revenues | | | | | <u>179,539</u> | <u>150,875</u> | <u>65,802</u> | <u>396,216</u> |
| Change in net assets | | | | | <u>7,638</u> | <u>128,410</u> | <u>(814,876)</u> | <u>(678,828)</u> |
| Net assets-beginning | | | | | <u>29,991</u> | <u>(317,651)</u> | <u>814,876</u> | <u>527,216</u> |
| Net assets-ending | | | | | <u>\$ 37,629</u> | <u>\$ (189,241)</u> | <u>\$ -</u> | <u>\$ (151,612)</u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City of Clare (the “City”) is governed by an elected five-member commission. The City provides services to its various residents in many areas, including law enforcement, health and sanitation, community enrichment and development and human services. As required by GAAP, these financial statements present the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, “*The Financial Reporting Entity*.”

The individual component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationships with the City.

Discretely Presented Component Units

The following component unit is reported within the “component unit” column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City’s financial statements to be misleading or incomplete.

Local Development Finance Authority (LDFA) - The LDFA was created to help finance local industrial development projects. The Authority’s governing body, which consists of 9 members, is selected by the City Commission. In addition, the Authority’s budget is subject to approval by the City Commission. The LDFA does not issue separate financial statements.

Downtown Development Authority (DDA) - The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 12 members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Library – The Garfield Memorial Library is a city library established by the City Charter and governed by Public Act 164. The Library's governing body, which consists of 5 members, is selected by the Mayor and each member serves a five-year term. In addition, the Library's budget is subject to approval by the City Commission. The Library does not issue separate financial statements.

The Garfield Memorial Library was dissolved in February 2005 when the Pere Marquette District Library was established. The net assets of the Garfield Memorial Library were contributed to the new district library.

Complete financial information of the individual component units can be obtained from their respective administrative offices or from the City Finance Director.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include: property taxes, state revenue sharing, reimbursement type grants, charges for services, and interest income.

The City property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2004 taxable valuation of the City totaled \$76.8 million (\$5.4 million of which relates to an Industrial Facilities Tax designation), on which ad valorem taxes levied consisted of 17.50 mills for City operating purpose, 0.9474 mills for the City Library, 0.7304 mills for streets, 0.2433 for sidewalks, and 0.7344 for parks. These amounts are recognized in the General Fund, City Library (Component Unit), Local Street, and Sidewalk Replacement Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The Fire Department Fund is used to account for the activities related for fire protection for the City and neighboring communities.

The government reports the following major proprietary funds:

The Sewer Fund is used to record the revenues and expenses for the operation of the sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of the water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The Data Processing Fund is an internal service fund, which accounts for the operation of the data processing function within the City. Money for the operation of this fund is supplied from reimbursements from user departments.

The Mobile Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the City on a cost reimbursement basis.

Agency Funds account for assets held for other governments and other city funds in an agency capacity, including tax collections and payroll and benefit administration.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The sewer and water fund also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 40 years |
| Sewer and water systems | 50 years |
| Vehicles | 3 to 5 years |
| Equipment | 7 to 10 years |

Deferred Revenue—Deferred revenue represent amounts that do not meet the availability criteria for recognition as revenue, such as grant monies received before the expenditure is incurred, and special assessments before the assessment is received.

Compensated Absences (Vacation and Sick Leave)—Vacation and sick leave benefits attributable to the City's governmental funds are recorded as an expenditure and a current liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund is recorded. Annual vacation and sick leave does not carryover; it must be used or it is lost.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

Encumbrances—Encumbrances are defined as commitments related to unperformed contracts for goods or services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Annual Informational Budget Summaries are prepared for Debt Service Funds, Capital Project Funds, Enterprise Funds and Internal Service Funds.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- Budgets can be amended during the year by a majority vote of the City Commission. The activity level in the General Fund and the fund level in the Special Revenue Funds are the the legal level of control.
- Budgets for the General Fund and Special Revenue Funds are prepared on a modified accrual basis. Also, informational budgets for the Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis, while the Enterprise Fund and Internal Service Fund informational budgets are prepared using the accrual basis of accounting. Both methods are consistent with generally accepted accounting principles (GAAP).
- Budget appropriations lapse at year end.
- The original budget was amended during the year in compliance with local and state laws. The budget to actual expenditures in the financial statements represent the final budgeted expenditures as amended by the City.

B. Excess of Expenditures Over Appropriations for Budgetary Funds

During the year the City incurred expenditures that were in excess of the amounts budgeted as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------|---------------|---------------|-----------------|
| General Fund – General Govn’t. | \$ 593,863 | \$ 599,216 | \$ (5,353) |
| Major Street Fund | 260,810 | 266,554 | (5,744) |

C. Fund Deficit

The City’s Downtown Development Authority (a component unit) has an accumulated fund deficit of \$114,388 at June 30, 2005. Management of the authority has not filed the required deficit elimination plan as required by state statute.

D. Pension Contributions

The City did not make its required pension contributions for the months of February, March, April and May in a timely manner as required by state statute, the pension plan document, and union contracts. Payments for these months were made in July 2005.

E. Distribution of Tax Revenue

The City was delinquent in distributing tax revenues that were collected for various taxing units.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 3. INVESTMENTS AND DEPOSITS

A. Investments

Under its investment policy, the City restricts its investments to bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of an financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

As of June 30, 2005 the City of Clare had the following investments:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Weighted Average Maturity</u> |
|------------------------|---------------------------|--|
| Repurchase Agreements | <u>\$ 2,400,000</u> | <u>11 Months</u> |

Interest Rate Risk-Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity.

Credit Risk-Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's current investment policy does specify a credit risk rating to be maintained.

Concentration of Credit Risk-The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The City's investments include \$2,400,000 of repurchase agreements with Chemical Bank & Trust Company with the underlying issuer an agency of the United States.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 3. INVESTMENTS AND DEPOSITS (Continued)

Custodial Risk-For an investment, is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments are repurchase agreements with an agency of the United States government as the underlying issuer.

B. Deposits

The City restricts its deposits to banks, savings and loans associations or credit unions, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State of the United States. The City Commission has authorized the following financial institutions as depositories for the City of Clare: Chemical Bank & Trust Company-Clare, Isabella Bank-Clare, Firstbank-Clare, and Central Michigan Community Federal Credit Union-Clare.

Custodial Credit Risk-For a deposit, is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institutions' trust department or agent but not in the name of the local government unit.

C. Year End Deposits

At June 30, 2005, deposits consisted of the following amounts:

| <u>Financial Institution</u> | <u>Carrying Amount</u> | <u>Percentage of Deposits</u> |
|---------------------------------------|----------------------------|-----------------------------------|
| Chemical Bank & Trust Company - Clare | \$ 591,049 | 72.89% |
| Isabella Bank - Clare | 100,000 | 12.33% |
| Firstbank - Clare | 97,226 | 11.99% |
| Deposits held by others | 22,211 | 2.74% |
| Petty cash and cash on hand | 350 | 0.05% |
| Total | <u>\$ 810,836</u> | <u>100.00%</u> |

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3. INVESTMENTS AND DEPOSITS (Continued)

| | Carrying Amount | | | |
|-----------------------------|-----------------------|--------------------|--------------------|-------------------|
| | Primary Government | Component Units | Fiduciary Funds | Total |
| Petty cash and cash on hand | \$ 350 | \$ - | \$ - | \$ 350 |
| Bank deposits | 566,152 | 32,585 | 89,538 | 688,275 |
| Certificates of deposit | 100,000 | - | - | 100,000 |
| Cash held by others | 20,211 | - | 2,000 | 22,211 |
| | <u>\$ 686,713</u> | <u>\$ 32,585</u> | <u>\$ 91,538</u> | <u>\$ 810,836</u> |

The bank balances of the primary government deposits is \$851,946, of which \$297,226 is covered by federal deposit insurance. The component unit's deposits had bank balances of \$32,585, all of which is covered by federal deposit insurance. The repurchase agreements are not insured by federal deposit insurance and the City's interest in the underlying government security is not perfected.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------------|-------------------|---------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 3,675,456 | \$ - | \$ - | \$ 3,675,456 |
| Construction in progress | 429,629 | 433,996 | 863,625 | - |
| Subtotal | <u>4,105,085</u> | <u>433,996</u> | <u>863,625</u> | <u>3,675,456</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 814,176 | 46,998 | - | 861,174 |
| Buildings and Improvements | 1,257,083 | 863,625 | - | 2,120,708 |
| Equipment | 2,780,684 | 170,657 | 24,589 | 2,926,752 |
| Subtotal | <u>4,851,943</u> | <u>1,081,280</u> | <u>24,589</u> | <u>5,908,634</u> |
| Less Accumulated Depreciation for | | | | |
| Land Improvements | 33,040 | 21,156 | - | 54,196 |
| Buildings and Improvements | 465,944 | 45,742 | - | 511,686 |
| Equipment | 1,563,718 | 234,906 | 24,589 | 1,774,035 |
| Subtotal | <u>2,062,702</u> | <u>301,804</u> | <u>24,589</u> | <u>2,339,917</u> |
| Net Capital Assets Being Depreciated | <u>2,789,241</u> | <u>779,476</u> | <u>-</u> | <u>3,568,717</u> |
| Governmental Activities Capital Assets— Net of Depreciation | <u>\$ 6,894,326</u> | <u>\$1,213,472</u> | <u>\$ 863,625</u> | <u>\$ 7,244,173</u> |

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CAPITAL ASSETS (Continued)

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 53,389 | \$ - | \$ - | \$ 53,389 |
| Construction in Progress | - | 8,593 | - | 8,593 |
| Subtotal | 53,389 | 8,593 | - | 61,982 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 465,117 | - | - | 465,117 |
| Buildings and Improvements | 3,657,715 | - | - | 3,657,715 |
| Equipment | 1,359,424 | - | - | 1,359,424 |
| Infrastructure | 6,323,330 | - | - | 6,323,330 |
| Subtotal | 11,805,586 | - | - | 11,805,586 |
| Less Accumulated Depreciation for | | | | |
| Land Improvements | 349,726 | 2,349 | - | 352,075 |
| Buildings and Improvements | 1,783,329 | 98,064 | - | 1,881,393 |
| Equipment | 921,556 | 50,455 | - | 972,011 |
| Infrastructure | 2,230,173 | 151,053 | - | 2,381,226 |
| Subtotal | 5,284,784 | 301,921 | - | 5,586,705 |
| Net Capital Assets Being Depreciated | 6,520,802 | (301,921) | - | 6,218,881 |
| Business-Type Activities Capital Assets-Net of Depreciation | \$ 6,574,191 | \$ (293,328) | \$ - | \$ 6,280,863 |

Depreciation expense was charged to programs of the City as follows:

| | |
|--------------------------------|-------------------|
| <u>Governmental Activities</u> | |
| General Government | \$ 46,850 |
| Public Safety | 64,364 |
| Public Works | 10,159 |
| Recreation and Culture | 23,615 |
| Internal Service Funds | 156,816 |
| Total Governmental Activities | <u>\$ 301,804</u> |

| | |
|---------------------------------|-------------------|
| <u>Business-Type Activities</u> | |
| Sewer | \$ 253,774 |
| Water | 48,147 |
| Total Business-Type Activities | <u>\$ 301,921</u> |

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

| Fund | Interfund Receivable | Fund | Interfund Payable |
|---------------|-------------------------|----------------|----------------------|
| General | \$ 618 | Major Street | \$ 25,000 |
| Local Streets | 25,000 | Tax Collection | 618 |
| Total | <u>\$ 25,618</u> | Total | <u>\$ 25,618</u> |

Interfund Transfers:

| Fund | Transfers Out | Fund | Transfers In |
|-----------------------|-------------------|-----------------|-------------------|
| General | \$ 132,398 | General | \$ 821 |
| Major Street | 63,678 | Local Street | 84,906 |
| Fire Department | 3,431 | Fire Department | 78,640 |
| Capital Project Funds | 105,698 | Public Safety | 35,961 |
| | | Sewer | 104,877 |
| Total | <u>\$ 305,205</u> | Total | <u>\$ 305,205</u> |

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 6. LONG-TERM DEBT (Continued)

Bond and contractual agreements can be summarized as follows:

| | <u>Interest Rate</u> | <u>Principal Matures</u> | <u>Beginning Balance</u> | <u>Additions (Reductions)</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|--------------------------|------------------------------|------------------------------|-----------------------------------|---------------------------|--------------------------------|
| Governmental Activities | | | | | | |
| Capital Lease | 6.82% | 2008 | \$ 155,099 | \$ (27,067) | \$ 128,032 | \$ 28,913 |
| Capital Lease | 6.80% | 2005 | 10,302 | (10,302) | - | - |
| 2004 General Obligation Limited Tax Bonds | 4.50% | 2034 | 429,629 | (12,000) | 788,000 | 13,000 |
| | | | <u>\$ 595,030</u> | <u>\$ 321,002</u> | <u>\$ 916,032</u> | <u>\$ 41,913</u> |
| Business-Type Activities | | | | | | |
| Sewer Revenue Bonds | 5.00% | 2030 | \$ 395,000 | \$ (4,000) | \$ 391,000 | \$ 4,000 |
| 2002 General Obligation Limited Tax Bonds | 2.50 to 4.125% | 2010 | 1,345,000 | (255,000) | 1,090,000 | 245,000 |
| Contract Payable | 4.00 to 5.85% | 2021 | 490,000 | (25,000) | 465,000 | 25,000 |
| 2000 General Obligation Limited Tax Bonds | 4.95 to 5.55% | 2018 | 280,000 | (20,000) | 260,000 | 20,000 |
| 2000 General Obligation Limited Tax Bonds | 4.75 to 5.55% | 2015 | 270,000 | (25,000) | 245,000 | 25,000 |
| Contract Payable | 4.00 to 5.85% | 2021 | 445,000 | (20,000) | 425,000 | 20,000 |
| | | | <u>\$ 3,225,000</u> | <u>\$ (349,000)</u> | <u>\$ 2,876,000</u> | <u>\$ 339,000</u> |
| Component Units | | | | | | |
| 1990 DDA Bonds | 6.10 to 7.45% | 2010 | \$ 115,000 | \$ (15,000) | \$ 100,000 | \$ 15,000 |
| 1994 DDA Bond | 4.55 to 5.95% | 2005 | 10,000 | (10,000) | - | - |
| 1992 DDA Bonds | 5.25 to 6.40% | 2010 | 195,000 | (25,000) | 170,000 | 30,000 |
| 1998 Contract Payable | 4.05 to 5.10% | 2012 | 470,000 | (45,000) | 425,000 | 45,000 |
| | | | <u>\$ 790,000</u> | <u>\$ (95,000)</u> | <u>\$ 695,000</u> | <u>\$ 90,000</u> |

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2005 are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Component Units</u> |
|--------------------------------|------------------------------------|-------------------------------------|----------------------------|
| 2006 | \$ 41,913 | \$ 339,000 | \$ 90,000 |
| 2007 | 45,886 | 349,000 | 95,000 |
| 2008 | 47,992 | 364,000 | 100,000 |
| 2009 | 51,241 | 368,000 | 100,000 |
| 2010 | 16,000 | 372,000 | 110,000 |
| Thereafter | 713,000 | 1,084,000 | 200,000 |
| Total | <u>\$ 916,032</u> | <u>\$ 2,876,000</u> | <u>\$ 695,000</u> |

Interest and fiscal charges for the year totaled \$170,537 for the primary governmental unit and \$43,866 for the component units; no interest costs were capitalized.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 7. CAPITAL LEASE

The City has entered into a lease agreement as lessee for financing the purchase of a fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligation and the net present value is as follows:

| | <u>Year Ended June 30</u> | |
|------------------------------------|---------------------------|--------------------------|
| | 2006 | \$ 37,645 |
| | 2007 | 37,645 |
| | 2008 | 37,645 |
| | 2009 | <u>37,645</u> |
| Total Minimum Lease Payments | | 150,580 |
| Less: Amount Representing Interest | | <u>22,548</u> |
| Present Value | | <u><u>\$ 128,032</u></u> |

NOTE 8. SEGMENT INFORMATION

The City has issued bonds to finance sewer and water system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

| | <u>Sewer</u> | <u>Water</u> |
|----------------------------|----------------------------|----------------------------|
| Assets | | |
| Current Assets | \$ 1,379,843 | \$ 547,904 |
| Restricted Assets | 25,000 | - |
| Capital Assets | <u>5,028,813</u> | <u>1,252,050</u> |
| Total Assets | <u>6,433,656</u> | <u>1,799,954</u> |
| Liabilities | | |
| Current Liabilities | 820,695 | 117,528 |
| Noncurrent Liabilities | <u>2,137,000</u> | <u>400,000</u> |
| Total Liabilities | <u>2,957,695</u> | <u>517,528</u> |
| Net Assets | | |
| Invested in Capital Assets | 2,577,813 | 827,050 |
| Restricted | 25,000 | - |
| Unrestricted | <u>873,148</u> | <u>455,376</u> |
| Total Net Assets | <u><u>\$ 3,475,961</u></u> | <u><u>\$ 1,282,426</u></u> |

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 8. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

| | Sewer | Water |
|--------------------------------|---------------------|---------------------|
| Operating Revenues | \$ 833,822 | \$ 363,493 |
| Depreciation Expense | (253,774) | (48,147) |
| Other Operating Expenses | (400,564) | (276,711) |
| Operating Income (Loss) | 179,484 | 38,635 |
| Nonoperating Revenue (Expense) | | |
| Investment Earnings | 40,843 | 15,536 |
| Interest Expense | (118,490) | (23,589) |
| Other Income and transfers | 162,629 | 69,090 |
| Change in Net Assets | 264,466 | 99,672 |
| Beginning Net Assets | 3,211,495 | 1,182,754 |
| Total Net Assets | <u>\$ 3,475,961</u> | <u>\$ 1,282,426</u> |

Condensed Statement of Cash Flows:

| | Sewer | Water |
|--|------------------|------------------|
| Net Cash Provided by (Used in) | | |
| Operating Activities | \$ 447,170 | \$ 69,094 |
| Noncapital Financing Activities | 109,838 | (25,733) |
| Capital and Related Financing Activities | (403,131) | 1,234 |
| Investing Activities | (134,158) | (59,464) |
| Net Increase (Decrease) | 19,719 | (14,869) |
| Beginning Cash and Cash Equivalents | 31,441 | 41,089 |
| Ending Cash and Cash Equivalents | <u>\$ 51,160</u> | <u>\$ 26,220</u> |

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool program, which operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plans were held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of the plan's investment activity for the year ended June 30, 2005, follows:

| | |
|---------------------------|-------------------|
| Balance – July 1, 2004 | \$ 215,743 |
| Employee Contributions | 36,229 |
| Current Withdrawals | (16,291) |
| Interest and Market Gains | 11,293 |
| Adjustments/Fees | (668) |
| Balance – June 30, 2005 | <u>\$ 246,306</u> |

NOTE 11. EMPLOYEES' RETIREMENT PLAN

Plan Description--The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to:

Municipal Employee Retirement Systems of Michigan
447 North Canal Street
Lansing, Michigan 48917
(517) 622-4401

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 11. EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy--The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment, for the year ended December 31, 2004, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Annual Pension Costs--For the year ended June 30, 2005, the City's annual pension contribution was equal to \$106,492. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increase ranging from 0.0% to 4.16%; and 3) various mortality rates, retirement rates and withdrawal rates for members based on experience studies.

Three year trend information as of December 31, 2004 follows:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|-------------|-------------|-------------|
| Annual Pension Cost | \$ 106,492 | \$ 95,277 | \$ 79,224 |
| Percentage of APC Contributed | 100% | 100% | 100% |
| Net Pension Obligation | 0 | 0 | 0 |
| Actuarial Accrued Liability | 4,664,043 | 4,362,322 | 4,009,399 |
| Actuarial Value of Assets | 3,839,608 | 3,567,712 | 3,271,398 |
| Unfunded (Overfunded) AAL | 824,435 | 794,610 | 738,001 |
| Funded Percentage | 82% | 82% | 82% |
| Covered Payroll | 936,407 | 974,497 | 1,003,607 |
| UAAL as a Percentage of Covered Payroll | 88% | 82% | 74% |

NOTE 12. CONTINGENT LIABILITIES

The City is a defendant in various legal actions in which plaintiffs seek damages of indeterminable amounts, which may exceed insurance coverage where applicable. Litigation is subject to many uncertainties, and the outcome of individual matters cannot be predicted. Accordingly, a reasonable range of liability to the City pertaining to these matters cannot be determined. Management has taken steps to protect the City and believes any liability resulting from cases in which it is involved will not materially affect its financial position.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 13. LANDFILL POST-CLOSURE CARE

The City owns and operated the Hatton Township Landfill, which was closed in the early 1980's. Following closure, the landfill was capped. However, there have been claims of contamination from the landfill infiltrating local aquifers and contaminating local private wells.

The City hired a technical consultant to develop an assessment plan to determine the levels of alleged migratory contamination. The Michigan Department of Environmental Quality (DEQ) disagreed with the scope and extent of the City consultant's assessment and assumed the role of performing this assessment in 2000. The DEQ completed its assessment plan in 2003 and found no migratory contamination.

In a subsequent meeting with the City, the State Attorney General's Office has proposed a plan to limit the City's future liability in respect to the landfill, wherein the City would contribute \$200,000 to be held in perpetuity in a designated and agreed-upon, third-party escrow account to defray any future costs and litigation ensuing from contamination caused by the landfill. Concurrently, the City would be required to agree to an annual monitoring program of the landfill at an estimated cost of approximately \$25,000 annually until such time that scheduled sampling supported the elimination of cessation of the monitoring program.

The City is reviewing the Attorney General proposal and is required to formally respond by March 1, 2006. A preliminary review of the proposal appears to be a positive development in the landfill post-closure issue as it succinctly defines and limits the City's current and future fiscal liability at a potentially affordable level.

NOTE 14. VALUATION OF CITY STREETS

Management has elected to utilize the transition option in the implementation of GASB Statement Number 34 for the valuation of the City's streets. Management plans to capitalize the value of its streets as an infrastructure asset in its June 30, 2006 financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 15. PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2005, a prior period adjustment in the amount of \$72,759 was necessary to properly account for the understatement of a receivable in the Downtown Development Authority Fund, during the year ended June 30, 2004. The effect on the fund balance is as follows:

| | |
|--|-------------------|
| Fund balance, beginning of year, | |
| as previously stated | \$ 187,317 |
| Prior period adjustments | <u>72,759</u> |
| Fund balance, beginning of year, as restated | <u>\$ 260,076</u> |

During the year ended June 30, 2005, a prior period adjustment in the amount of \$96,479 was necessary to properly account for the understatement of net assets for governmental activities, during the year ended June 30, 2004. The effect on net assets is as follows:

| | |
|--|---------------------|
| Net assets, beginning of year, | |
| as previously stated | \$ 8,196,295 |
| Prior period adjustments | <u>96,479</u> |
| Fund balance, beginning of year, as restated | <u>\$ 8,292,774</u> |

NOTE 16. OTHER POST EMPLOYMENT BENEFITS (OPEB)

In June 2004, the Governmental Accounting Standards Board issued Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City of Clare does not provide post employment benefits to retirees and will not have to report any costs or liabilities in future periods.

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2005

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|-------------------|---|
| REVENUES | | | | |
| Property taxes and related fees | \$ 1,233,480 | \$ 1,233,480 | \$ 1,224,622 | \$ (8,858) |
| Licenses and permits | 24,045 | 24,045 | 16,168 | (7,877) |
| State aid | 793,852 | 793,852 | 386,304 | (407,548) |
| Charges for services | 250,470 | 267,970 | 287,801 | 19,831 |
| Interest and dividends | 11,000 | 11,000 | 42,500 | 31,500 |
| Fines and forfeits | 14,300 | 17,218 | 13,665 | (3,553) |
| Special assessments | 37,680 | 37,680 | 38,359 | 679 |
| Donations and contributions | 2,200 | 3,200 | 1,925 | (1,275) |
| Sale of assets | 2,000 | 2,000 | - | (2,000) |
| Miscellaneous | 28,470 | 28,470 | 36,158 | 7,688 |
| Total revenues | <u>2,397,497</u> | <u>2,418,915</u> | <u>2,047,502</u> | <u>(371,413)</u> |
| EXPENDITURES | | | | |
| General Government: | | | | |
| City commission | 63,990 | 67,590 | 68,088 | (498) |
| City manager | 101,080 | 109,063 | 110,662 | (1,599) |
| Treasurer/assessing | 64,490 | 77,190 | 83,481 | (6,291) |
| Clerk | 119,352 | 123,452 | 122,981 | 471 |
| Cemetery | 49,041 | 49,941 | 53,769 | (3,828) |
| All other general government | 163,627 | 166,627 | 160,235 | 6,392 |
| Public Safety: | | | | |
| Police department | 667,085 | 671,003 | 628,277 | 42,726 |
| Building inspection and regulation activities | 33,710 | 33,710 | 28,071 | 5,639 |
| Public Works: | | | | |
| Solid waste | 134,043 | 134,043 | 114,225 | 19,818 |
| Landfill closure | 1,300 | 3,300 | 2,118 | 1,182 |
| Downtown maintenance | 31,651 | 31,651 | 29,398 | 2,253 |
| Street lights | 57,870 | 57,870 | 64,911 | (7,041) |
| Community Development: | | | | |
| Planning and zoning | 26,200 | 24,700 | 21,707 | 2,993 |
| Recreation and Culture: | | | | |
| Parks and recreation | 213,466 | 189,891 | 173,087 | 16,804 |
| Airport | 509,595 | 551,340 | 152,472 | 398,868 |
| Capital Outlay: | | | | |
| General government | 61,129 | 74,004 | 60,160 | 13,844 |
| Total expenditures | <u>2,297,629</u> | <u>2,365,375</u> | <u>1,873,642</u> | <u>491,733</u> |
| Excess (deficiency) of revenues over expenditures | <u>99,868</u> | <u>53,540</u> | <u>173,860</u> | <u>120,320</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers-in | 25,000 | 71,328 | 821 | (70,507) |
| Transfers-out | (124,868) | (152,253) | (132,398) | 19,855 |
| Total other financing sources and uses | <u>(99,868)</u> | <u>(80,925)</u> | <u>(131,577)</u> | <u>(50,652)</u> |
| Net change in fund balance | - | (27,385) | 42,283 | 69,668 |
| Fund balances-beginning | 836,396 | 836,396 | 836,396 | - |
| Fund balances-ending | <u>\$ 836,396</u> | <u>\$ 809,011</u> | <u>\$ 878,679</u> | <u>\$ 69,668</u> |

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Year Ended June 30, 2005

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------------|-------------------------|------------------|---|
| REVENUES | | | | |
| State aid | \$ 216,500 | \$ 305,630 | \$ 309,841 | \$ 4,211 |
| Interest and dividends | 50 | 50 | 1,039 | 989 |
| Special assessments | 1,800 | 1,800 | 966 | (834) |
| Miscellaneous | 10,000 | 10,000 | 381 | (9,619) |
| Total revenues | <u>228,350</u> | <u>317,480</u> | <u>312,227</u> | <u>(5,253)</u> |
| EXPENDITURES | | | | |
| Construction | 34,993 | 124,123 | 117,513 | 6,610 |
| Street maintenance | 63,857 | 63,857 | 63,297 | 560 |
| Administration | 12,400 | 12,400 | 11,891 | 509 |
| State trunkline operations | 60,430 | 60,430 | 73,853 | (13,423) |
| Total expenditures | <u>171,680</u> | <u>260,810</u> | <u>266,554</u> | <u>(5,744)</u> |
| Deficiency of revenues over expenditures | <u>56,670</u> | <u>56,670</u> | <u>45,673</u> | <u>(10,997)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers-out | <u>(81,670)</u> | <u>(81,670)</u> | <u>(63,678)</u> | <u>17,992</u> |
| Total other financing sources and uses | <u>(81,670)</u> | <u>(81,670)</u> | <u>(63,678)</u> | <u>17,992</u> |
| Net change in fund balances | <u>(25,000)</u> | <u>(25,000)</u> | <u>(18,005)</u> | <u>6,995</u> |
| Fund balances-beginning | <u>39,483</u> | <u>39,483</u> | <u>39,483</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 14,483</u> | <u>\$ 14,483</u> | <u>\$ 21,478</u> | <u>\$ 6,995</u> |

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Year Ended June 30, 2005

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------------|-------------------------|------------------|---|
| REVENUES | | | | |
| Property taxes and related fees | \$ 47,500 | \$ 47,500 | \$ 48,092 | \$ 592 |
| State aid | 83,180 | 83,180 | 71,381 | (11,799) |
| Interest and dividends | - | - | 2,587 | 2,587 |
| Special assessments | 6,310 | 6,310 | 4,168 | (2,142) |
| Miscellaneous | - | - | 5,156 | 5,156 |
| Total revenues | <u>136,990</u> | <u>136,990</u> | <u>131,384</u> | <u>(5,606)</u> |
| EXPENDITURES | | | | |
| Street maintenance | 170,600 | 170,600 | 159,540 | 11,060 |
| Administration | 10,810 | 10,810 | 11,160 | (350) |
| Construction | 23,000 | 49,700 | 39,114 | 10,586 |
| Total expenditures | <u>204,410</u> | <u>231,110</u> | <u>209,814</u> | <u>21,296</u> |
| Deficiency of revenues over expenditures | <u>(67,420)</u> | <u>(94,120)</u> | <u>(78,430)</u> | <u>15,690</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from debt obligations | - | - | - | - |
| Transfers-in | 67,420 | 67,420 | 84,906 | 17,486 |
| Transfers-out | - | - | - | - |
| Total other financing sources and uses | <u>67,420</u> | <u>67,420</u> | <u>84,906</u> | <u>17,486</u> |
| Net change in fund balances | - | (26,700) | 6,476 | 33,176 |
| Fund balance-beginning | <u>30,597</u> | <u>30,597</u> | <u>30,597</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 30,597</u> | <u>\$ 3,897</u> | <u>\$ 37,073</u> | <u>\$ 33,176</u> |

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT FUND
For the Year Ended June 30, 2005

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|-------------------|---|
| REVENUES | | | | |
| Federal aid | \$ - | \$ 24,777 | \$ 24,777 | \$ - |
| Charges for services | 133,420 | 133,420 | 152,128 | 18,708 |
| Interest and dividends | 650 | 650 | 8,568 | 7,918 |
| Donations and contributions | - | 2,753 | 3,253 | 500 |
| Miscellaneous | - | - | 661 | 661 |
| Total revenues | <u>134,070</u> | <u>161,600</u> | <u>189,387</u> | <u>27,787</u> |
| EXPENDITURES | | | | |
| Fire operations | 112,608 | 140,138 | 157,772 | (17,634) |
| Capital outlay | 62,102 | 62,102 | 42,549 | 19,553 |
| Debt service | <u>38,000</u> | <u>38,000</u> | <u>37,645</u> | <u>355</u> |
| Total expenditures | <u>212,710</u> | <u>240,240</u> | <u>237,966</u> | <u>2,274</u> |
| Excess (deficiency) of revenues over expenditures | <u>(78,640)</u> | <u>(78,640)</u> | <u>(48,579)</u> | <u>30,061</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers-in | 78,640 | 78,640 | 78,640 | - |
| Transfers-out | <u>-</u> | <u>-</u> | <u>(3,431)</u> | <u>(3,431)</u> |
| Total other financing sources and uses | <u>78,640</u> | <u>78,640</u> | <u>75,209</u> | <u>(3,431)</u> |
| Net change in fund balances | - | - | 26,630 | 26,630 |
| Fund balances-beginning | <u>153,294</u> | <u>153,294</u> | <u>153,294</u> | <u>-</u> |
| Fund balances-ending | <u>\$ 153,294</u> | <u>\$ 153,294</u> | <u>\$ 179,924</u> | <u>\$ 26,630</u> |

CITY OF CLARE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

| | Debt Service Funds | | Capital Projects Funds | | | | | Permanent Fund | Total Nonmajor Governmental Funds |
|-------------------------------------|--------------------|--------------------------------|------------------------|----------------------|---------------|--------------|-----------------|-------------------------|-----------------------------------|
| | Public Safety | 1988 Street Special Assessment | Capital Improvements | Sidewalk Replacement | Public Safety | Fifth Street | Industrial Park | Cemetery Perpetual Care | |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 8,849 | \$ - | \$ - | \$ - | \$ 73,422 | \$ 82,271 |
| Investments | - | - | - | 25,000 | - | - | - | 225,000 | 250,000 |
| Taxes receivable, net | - | - | - | 131 | - | - | - | - | 131 |
| Assessment receivable, net | - | - | - | 9,675 | - | - | - | - | 9,675 |
| Due from other funds | - | - | - | - | - | - | - | - | - |
| Other receivables | - | - | - | - | - | - | - | - | - |
| Prepaid items | - | - | - | - | - | - | - | - | - |
| Total assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,655</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 298,422</u> | <u>\$ 342,077</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 580 | \$ - | \$ - | \$ - | \$ - | \$ 580 |
| Accrued expenses | - | - | - | 136 | - | - | - | - | 136 |
| Due to other funds | - | - | - | - | - | - | - | - | - |
| Deferred revenue | - | - | - | 9,675 | - | - | - | - | 9,675 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,391</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,391</u> |
| Fund balances: | | | | | | | | | |
| Reserved for: | | | | | | | | | |
| Prepaid items | - | - | - | - | - | - | - | - | - |
| Unreserved and undesignated | - | - | - | 33,264 | - | - | - | 298,422 | 331,686 |
| Total fund balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>33,264</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>298,422</u> | <u>331,686</u> |
| Total liabilities and fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,655</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 298,422</u> | <u>\$ 342,077</u> |

CITY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

| | Debt Service Funds | | | | Capital Projects Funds | | | Permanent Fund | Total Nonmajor Governmental Funds |
|---|---------------------------|---------------------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------|------------------------|--------------------------------|--|
| | Public Safety | 1988 Street Special Assessment | Capital Improvements | Sidewalk Replacement | Public Safety | Fifth Street | Industrial Park | Cemetery Perpetual Care | |
| REVENUES | | | | | | | | | |
| Property taxes and related fees | \$ - | \$ - | \$ - | \$ 16,095 | \$ - | \$ - | \$ - | \$ - | \$ 16,095 |
| Charges for services | - | - | - | - | - | - | - | 8,100 | 8,100 |
| Interest and dividends | - | - | - | 1,531 | - | - | - | 10,535 | 12,066 |
| Special assessments, net | - | - | - | 3,726 | - | - | - | - | 3,726 |
| Miscellaneous | - | - | - | 425 | - | - | - | - | 425 |
| Total revenues | - | - | - | 21,777 | - | - | - | 18,635 | 40,412 |
| EXPENDITURES | | | | | | | | | |
| Public safety | - | - | - | - | - | - | - | - | - |
| Public works | - | - | - | 10,978 | - | - | - | - | 10,978 |
| Capital outlay | - | - | - | - | 407,708 | - | - | - | 407,708 |
| Debt service | 25,192 | - | - | - | - | - | - | - | 25,192 |
| Total expenditures | 25,192 | - | - | 10,978 | 407,708 | - | - | - | 443,878 |
| Excess (deficiency) of revenues over expenditures | (25,192) | - | - | 10,799 | (407,708) | - | - | 18,635 | (403,466) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | |
| Proceeds from debt obligations | - | - | - | - | 370,371 | - | - | - | 370,371 |
| Transfers-in | 8,576 | - | - | - | 27,385 | - | - | - | 35,961 |
| Transfers-out | - | (103) | (144) | - | - | (574) | (104,877) | - | (105,698) |
| Total other financing sources and uses | 8,576 | (103) | (144) | - | 397,756 | (574) | (104,877) | - | 300,634 |
| Net change in fund balances | (16,616) | (103) | (144) | 10,799 | (9,952) | (574) | (104,877) | 18,635 | (102,832) |
| Fund balances-beginning | 16,616 | 103 | 144 | 22,465 | 9,952 | 574 | 104,877 | 279,787 | 434,518 |
| Fund balances-ending | \$ - | \$ - | \$ - | \$ 33,264 | \$ - | \$ - | \$ - | \$ 298,422 | \$ 331,686 |

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUNDS
June 30, 2005

| | <u>Data</u> <u>Processing</u> | <u>Mobile</u> <u>Equipment</u> | <u>Total</u> |
|---|--|---|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 20,408 | \$ 11,117 | \$ 31,525 |
| Investments | 125,000 | 150,000 | 275,000 |
| Accounts receivable, net | - | 1,898 | 1,898 |
| Inventory | - | 16,845 | 16,845 |
| Prepaid items | - | 967 | 967 |
| Total current assets | <u>145,408</u> | <u>180,827</u> | <u>326,235</u> |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | - | 85,000 | 85,000 |
| Buildings and improvements, net | - | 212,693 | 212,693 |
| Equipment, net | 128,689 | 317,033 | 445,722 |
| Total noncurrent assets | <u>128,689</u> | <u>614,726</u> | <u>743,415</u> |
| Total assets | <u>274,097</u> | <u>795,553</u> | <u>1,069,650</u> |
| LIABILITIES | | | |
| Accounts payable | 680 | 38,829 | 39,509 |
| Accrued expenses | 671 | 2,549 | 3,220 |
| Total liabilities | <u>1,351</u> | <u>41,378</u> | <u>42,729</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 128,689 | 614,726 | 743,415 |
| Unrestricted | 144,057 | 139,450 | 283,507 |
| Total net assets | <u>\$ 272,746</u> | <u>\$ 754,176</u> | <u>\$ 1,026,922</u> |

CITY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2005

| | Data Processing | Mobile Equipment | Total |
|---|----------------------------|-----------------------------|----------------------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 87,840 | \$ 344,448 | \$ 432,288 |
| Miscellaneous | 37 | 1,817 | 1,854 |
| Total operating revenues | <u>87,877</u> | <u>346,265</u> | <u>434,142</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 22,817 | 74,027 | 96,844 |
| Payroll taxes | 1,680 | 5,472 | 7,152 |
| Employee benefits | 11,484 | 36,772 | 48,256 |
| Supplies | 6,918 | 18,977 | 25,895 |
| Postage | - | 1,727 | 1,727 |
| Contracted services | 37,238 | 13,914 | 51,152 |
| Insurance | 93 | 23,802 | 23,895 |
| Telephone and communications | - | 782 | 782 |
| Training | 856 | 654 | 1,510 |
| Utilities | - | 12,640 | 12,640 |
| Repair and maintenance | 1,455 | 67,738 | 69,193 |
| Equipment rental | - | 12,420 | 12,420 |
| Miscellaneous | 38 | 264 | 302 |
| Depreciation | 46,466 | 110,350 | 156,816 |
| Total operating expenses | <u>129,045</u> | <u>379,539</u> | <u>508,584</u> |
| Operating income (loss) | <u>(41,168)</u> | <u>(33,274)</u> | <u>(74,442)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment earnings | 6,775 | 8,209 | 14,984 |
| Interest expense | - | (4,688) | (4,688) |
| Total nonoperating revenue (expenses) | <u>6,775</u> | <u>3,521</u> | <u>10,296</u> |
| Changes in net assets | (34,393) | (29,753) | (64,146) |
| Total net assets-beginning | <u>307,139</u> | <u>783,929</u> | <u>1,091,068</u> |
| Total net assets-ending | <u><u>\$ 272,746</u></u> | <u><u>\$ 754,176</u></u> | <u><u>\$ 1,026,922</u></u> |

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

We have audited the basic financial statements of the City of Clare, Clare and Isabella Counties, Michigan (the "City"), as of and for the year ended June 30, 2005 and have issued our report thereon dated December 1, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance


As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Accounting Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted three matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. These items are listed as 2005-1 through 2005-4 in the accompanying Schedule of Findings and Questioned Costs. We also listed and reported to management other matters we felt were worthy of their consideration in a separate letter dated, December 1, 2005.

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2005 we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management, others within the organization, the City of Clare's Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Burnside & Fay n.p.c.".

Midland, Michigan
December 1, 2005

CITY OF CLARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2005

Internal Control findings

Finding 2005-1

Financial Reporting (Repeat Comment)

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).
- Balance sheet by fund (monthly).
- Detail revenue by fund – budget to actual (monthly).
- Detail expenditures by fund – budget to actual (monthly).
- Bank reconciliations (monthly).

Due to changes in staff, these mandatory reports have not been provided to the City Commission on a regular basis. These reports must be prepared to assist the Commission in determining whether the financial activity of the various funds are within the adopted budgets, that there are sufficient cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures.

Finding 2005-2

MERS – Municipal Employee Retirement System

The city participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During our audit we noticed that required contributions, for the months of February through May, 2005, was not paid to the system until July. Although MERS has not contacted the City, we believe that they have the right to assess interest and penalties for late submission of payments. In addition this is in violation of State statute and union contracts.

We recommend that all future payments to the system be paid timely. This will eliminate the potential of the City incurring any unnecessary MERS penalties.

Schedule of Findings and Questioned Costs - (Continued)

Finding 2005-3

Fund Deficit

Downtown Development Authority (DDA) had a fund deficit as of June 30, 2005. Public Act 275 of 1980 (MCL 141.921) requires that the City file a deficit elimination plan to the Michigan Department of Treasury within 90 days after the end of the fiscal year. The city has not filed the required plan. We recommend the DDA chairman file a deficit elimination plan to comply with the State Treasury requirements.

Finding 2005-4

Tax Remittals

The Treasurer (per state statute) is required to distribute to other tax assessing units, tax collections on hand on the first and the fifteenth day of each month, within 10 business days after the first and fifteenth day of each month. We noted during our audit that this distribution schedule was not consistently maintained. We recommend that all future tax distributions be made timely per the above statute.

December 1, 2005

Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the City of Clare, Clare and Isabella Counties (the "City"), for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management, in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Financial Reporting (Repeat Comment)

As described in the Uniform Accounting Procedures Manual for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

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- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).
- Balance sheet by fund (monthly).
- Detail revenue by fund – budget to actual (monthly).
- Detail expenditures by fund – budget to actual (monthly).
- Bank reconciliations (monthly).

Audit & Assurance Services ■ Accounting & Finance Services ■ Estate & Gift Tax Planning & Consulting
Tax Planning & Preparation ■ Financial & Management Assistance ■ Business Valuations

Financial Reporting (Continued)

Due to changes in staff, these mandatory reports have not been provided to the City Commission on a regular basis. These reports must be prepared to assist the Commission in determining whether the financial activity of the various funds are within the adopted budgets, that there are sufficient cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures.

MERS – Municipal Employee Retirement System

The city participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During our audit we noticed that required contributions for the months of February through May, 2005, were not paid to the system until July. Although MERS has not contacted the City, we believe that they have the right to assess interest and penalties for late submission of payments. In addition this is in violation of State statute and union contracts.

We recommend that all future payments to the system be paid timely. This will eliminate the potential of the City incurring any unnecessary MERS penalties.

Fund Deficit

Downtown Development Authority (DDA) had a fund deficit as of June 30, 2005. Public Act 275 of 1980 (MCL 141.921) requires that the City file a deficit elimination plan to the Michigan Department of Treasury within 90 days after the end of the fiscal year. The city has not filed the required plan. We recommend the DDA chairman file a deficit elimination plan to comply with the State Treasury requirements.

OTHER MATTERS

The following matters, although not considered reportable conditions, are matters we felt worthy for your consideration.

Minutes on all Boards

During the process of our audit we are required to read all financially related commission, authority and committee minutes. We found the commission minutes to be very complete and thorough in highlighting and documenting all financially related resolutions made during the last fiscal year. However, we were unable to review all minutes of all authorities and committees of the City.

We recommend that all authorities and committees of the City forward their respective minutes regularly to the City Clerk for retention.

Revenues and Expenditure Projections

During our audit, we noted that the City's fire fund has a five-year budget projection for its revenues and expenditures. However, the remaining funds have no such plan in place. We recommend this analysis be part of the budgeting process and estimate revenue and expenditures for four years beyond the current budget cycle for all the City's funds. Following this recommendation will highlight potential financial difficulties and allow Commissioners time to evaluate the effect on City services.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a governmental unit shall not incur expenditures in excess of amount appropriated. We noted during our audit that the City incurred expenditures in excess of amounts appropriated in some fund and line items. Per the Financial Director most of these differences are the result of updating accounting structure to comply with State's Uniform Chart of Accounts for Counties and Local Units of Governments.

We recommend completion of the account updates in process, and that the budget be amended during the year to account for any account structure updates or expenditures in excess of the original budget amounts. These amendments must be approved by the City Commissioners and documented in the Commission minutes. This will help the City from incurring expenditures in excess of appropriations.

Establishment of New Fund

State of Michigan PA #71 of 1919 as amended and/or PA #2 of 1968 as amended statute requires an establishment of a separate accounting fund for the collection and recording of drug forfeiture monies. As of our audit date, the City has not established such a fund.

We recommend that the City establish a new accounting fund to maintain and record the receipt and expenditure of the related drug forfeiture monies. By following this recommendation the City will continue to enhance its efforts in complying with all of the State of Michigan's statutory requirements.

Conflict of Interest Policy

During our audit, we found no formal policy adopted by the City pertaining to related party transactions when awarding contracts and purchasing goods and services.

According to Michigan Compiled Laws (MCL) 46.3 " No member of such governmental board shall be interested directly or indirectly in any contract or other business transaction with any unit of government, or any board, office or commission thereof, during the time for which he or she is elected or appointed, nor for 1 year thereafter unless such contract or transaction has been approved by $\frac{3}{4}$ of the members of the governmental commission and so shown on the minutes of the commission together with a statement showing that the commission is cognizant of such member's interest."

We recommend that the City document, in writing, a policy and procedure which covers disclosure requirements regarding transactions and relationships that may involve potential conflicts of interests.

The policy should provide for an annual statement from the commissioners and employees in sensitive positions certifying their compliance with the policy. These statements should be reviewed by the board of commissioners. In addition, the policy should cover disclosure requirements by employees and commission members regarding transactions and relationships that involve any potential conflicts of interest.

This policy and procedure will provide adequate assurance that significant related party transactions did not occur which could have a significant influence over the Commission's control.

Water Billing

During our audit we noted that there is a continuing variance, (in excess of 40%) in the amount of water actually pumped and that billed by the water department. Our experience and review of other municipalities indicates that this variance should be more like 10%.

We recommend a monthly monitoring of this variance, and that an ongoing process is implemented to detect and reduce this water loss.

Payroll Reconciliation

During our audit we attempt to reconcile total wages per IRS 941 Forms to wage totals recorded within the general ledger. We perform this procedure to determine the accuracy of payroll processing and financial reporting. Due to two missing 941 Forms, we were unable to complete this procedure.

We recommend that these two missing 941's be requested from the IRS, and that future general ledger – payroll reconciliations be completed quarterly by the finance department.

GASB - 34 Implementation

As mentioned in last years notes to the financial statements management has elected to utilize the transition option in the implementation of GASB No. 34 and plans to capitalize the value of its network of streets as an infrastructure asset in its June 30, 2007 financial statements.

Financial statements in accordance with the new reporting format prescribed by GASB Statement 34, has to include the capitalization as explained above. We recommend inventory and value of city streets and signs to be recorded within the financial statements by June 30th, 2007.

Fixed Asset Records

It was also noted within our audit that fixed asset installation and integration within your City's accounting records has not been fully completed. Management has explained that it is their plan to implement the above upon the completion of the updates to the new computer software BS&A.

We fully support their efforts and plans to complete this process. This will greatly improve the City's internal control in safeguarding fixed assets by giving the Commissioners a complete up-to-date list of all fixed assets owned.

Tax Remittals

The Treasurer (per state statute) is required to distribute to other tax assessing units, tax collections on hand on the first and the fifteenth day of each month, within 10 business days after the first and fifteenth day of each month. We noted during our audit that this distribution schedule was not consistently maintained. We recommend that all future tax distributions be made timely per the above statute.

Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan
Page 6

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2005, financial statements, and this report does not affect our report on those financial statements dated December 1, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the City Commission, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang P.C.".

BURNSIDE & LANG, P.C.